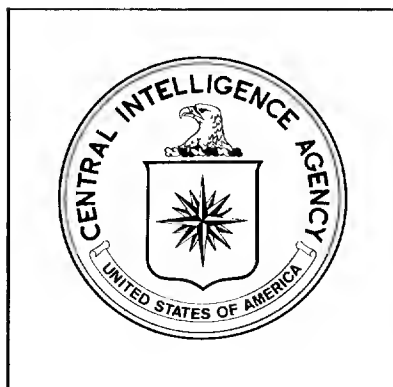


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East Asia

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Laos: Cleansing the Lao Army

[REDACTED]

The Lao communists over the past few weeks have been implementing a careful plan to re-educate Lao army officers who did not flee the country following the collapse of the coalition. The officers, particularly those with past close connections with the US, have been humiliated, and many have been transported to communist towns deep in the hinterlands for indoctrination. There is no evidence that any have been executed or physically abused, but the conditions in some of these areas resemble concentration camps.

The First Phase: Re-education Seminars

In late June and early July many Lao army officers and some civilian officials were required to attend training seminars at local military facilities to learn the new "political realities." The experiences of about 250 officers who attended a seminar at Chinaimo Camp near Vientiane seem typical. The participants spent part of their day digging ditches, learning how to construct grass huts, and tending vegetable plots. The remainder of the day was taken up with lectures by Pathet Lao cadre on the new Lao political situation. [REDACTED] Soviet and Chinese personnel also made presentations.

[REDACTED] the participants in the Chinaimo seminar were stripped of all badges of rank and other insignia and each was given responsibility for a specific garden plot. All call one another "comrade" and learn to break into applause on cue from instructors. [REDACTED] described the site as like a concentration camp and reported that the senior communist political officer went so far as to ask [REDACTED] for assistance in electrifying barbed wire fences and installing security lights. [REDACTED]

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Movement to the Hinterlands

4 The communists in late July began moving groups of officers and others to Sam Neua, the Plaine des Jarres, or elsewhere deep within parts of Laos long under communist domination. Participants were usually given little notice. The participants at the Chinaimo seminar were hustled out of Vientiane so quickly that they were not allowed to bid farewell to their families. As a result of these swift moves, many of the officers' wives believe they will never see their husbands again. Several officers, who were warned, managed to slip across the river.

No officer has yet returned from these seminars in the hinterlands and we have no information on the fate of the participants. The sessions are supposed to last from two to three months, but most Lao expect it to be considerably longer. [REDACTED]

1 [REDACTED] many will remain for more than a year. [REDACTED] most of those who fully grasp and accept the communist teachings will be allowed to return to Vientiane, but some will remain to work at posts in the hinterlands.

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Communist Goals

6 This re-education effort probably serves several communist purposes. One important goal almost certainly is to keep a close watch on the officers while the remainder of the coalition is demolished. The movement of most officers far from their homes precludes their flight and ensures that they will not be in contact with potentially troublesome elements in Vientiane or across the Mekong in Thailand.

8 The communists probably also hope that some of the officers will demonstrate a willingness to cooperate in the new order. Technicians and capable

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8 middle grade officers and civilian personnel are in short supply in communist ranks. Reformed officers could be put to good use either in Vientiane or with communist units in the back country. (SECRET NO FOREIGN DISSEM)



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South Vietnam: The First Three Months

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2 Celebrations have begun in Vietnam commemorating the 30th anniversary of the August revolution of 1945 which led to the establishment of North Vietnam on September 2. The communists took over in South Vietnam on April 30, but this part of the country has been under virtual martial law for the past three months with the military exercising almost exclusive control over the daily tasks of administration. It is possible that the communists will use the September 2nd anniversary celebrations to announce the formation of a civilian government for the South or provide some indication when that transition will occur. Beyond this possibility, however, the communists are not expected to make many additional commitments on the South's future, especially regarding reunification.

1
2 What the first 100 or so days of communist control of Vietnam has most clearly shown is that the goal of formal reunification will be pursued gradually and in accordance with no preconceived timetable. The impatience for some indication of how soon that will occur seems to be greater outside the country than among the Vietnamese themselves. For a people who maintain they have been fighting for centuries to reunify their country, a few more months or years is of little consequence.

1
2 The first three months have also shown that the Vietnamese may have underestimated some of the problems confronting them following the victory. The rapid collapse of the Saigon government put the communists in an exposed position administratively. A recent joint article by Hanoi's defense chief and his deputy confirms that North Vietnam's objectives until the latter part of March were considerably more limited than total victory. The last minute

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decision to go all out--made on March 25--did not permit Hanoi to do much political homework before assuming administrative control of the South.

1
2 Many of the initial communist actions were makeshift and had little resemblance to firm policy decisions or sound administrative judgment. In the ensuing weeks, the communists have begun to concede publicly that the business of putting the country back into working order would likely be a long and difficult task and that instilling the proper dedication to the revolutionary cause among the southern population as a whole might require lengthier and harsher forms of persuasion than the communists probably originally anticipated would be necessary.

Reunification

1
2 There is little likelihood that the goals of a socialist and collectivized south reunited with and dominated by the North, will be moderated. In their public commentary, both North and South Vietnamese communist officials have made it clear that de facto reunification occurred with the surrender of Saigon. These statements, in addition to other indications, have also clearly established that the North Vietnamese are in control and that Hanoi is calling the shots. For example, in early May a military management committee was established in Saigon headed by a North Vietnamese general, and during celebrations on May 19 commemorating Ho Chi Minh's birthday, the fourth-ranking member of the North Vietnamese Politburo was publicly identified as the individual in charge of party and military affairs in the South. It became evident that for the time being Vietnam would be one country under the umbrella of the Communist Party, but with "two governments."

The communists probably will decide on formally reunifying the country when they are satisfied the bulk of the problems with security and the economy in the South are under control. The most likely

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format for achieving formal reunification would be to hold a plebiscite. Such a forum in itself argues for a deliberate pace since the communists must be certain that the "free" choice of the people will be properly expressed.

Quality of Life

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The communists have conceded in the public media that their most serious problem is security. Resistance to the new regime is mostly from former government soldiers fearing for their lives, religious groups philosophically opposed to the communists, ethnic groups which traditionally have resisted any sort of Vietnamese domination, and robbers and bandits stealing to survive. None of this resistance activity appears organized and it is unlikely to present any long-term threat to communist control. But it is a thorn in the side of the communists and unquestionably is an important factor compounding the other problems confronting the new regime.

1
2
Second on the list of problems is the economy, which the communists admit is in sad shape. Actions taken so far appear to be makeshift--for example, banks were secretly reopened, but no new money has been printed. Living conditions in Saigon and throughout the rest of the country appear to have deteriorated somewhat, but there are as yet no indications of mass starvation or widespread epidemics. People in the cities are being encouraged to return to the countryside to resume farming in the wake of tentative indications that food shortages may occur later this year. The communists lack the fertilizers, machinery and spare parts, fuel, and high yield rice stocks to become self-sufficient in food and probably will not be able to offset these shortcomings by expanding farm acreage.

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2 The communists appear to have begun efforts to mobilize non-communist members of the population to attack these various economic and social problems. A recent Saigon municipal congress of the National Liberation Front was held in July and is the best sign to date that attempts are being made to intensify such efforts on a national scale. The National Liberation Front is the Vietnamese Communist vehicle for mobilizing widespread non-communist popular participation to implement party policy.

The Foreign Scene

1
2 Just as the Vietnamese communists have adopted a deliberate timetable for internal consolidation in the South, they appear to be in no great hurry to expand the new regime's diplomatic points of contact with the outside world. From all appearances to date, Hanoi is unlikely to sanction full ambassadorial representation in Saigon in the near future. Most nations probably will be invited to send an ambassador to Hanoi and that ambassador will also be accredited to the southern regime. Others, especially Hanoi's communist allies and western nations such as France, may be permitted to send a charge d'affaires to Saigon. This would give the appearance of independent diplomatic status for the southern regime for the near term, and once formal reunification is announced, the accreditation could easily be converted to consular status.

1
2 Several countries, especially the two big communist allies, have complained about not being permitted early official access to Saigon. The French have also been especially irate, feeling that the Vietnamese falsely led them to believe they would be the first western country to have relations with the new regime. So far, however, the communists have permitted no foreign missions into the South,

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although since assuming power, they have agreed to exchange ambassadors with over 80 countries.

1
2 Hanoi has nonetheless encouraged the southern regime to expand its diplomatic activity and to be accepted as a separate member of the world community. It certainly had to approve Saigon's application for separate admission to the UN and endorse the Saigon request to be admitted to the nonaligned group of nations. The latter move unquestionably is tied to Hanoi's attempt to assure as much third-country support for the recent UN bids as possible--without relying exclusively on its communist backers. The communists have reacted with predictable harsh rhetoric about the US Security Council veto of the bid for dual UN membership. But in fact, the numerous public statements by Vietnamese communist officials to the effect that a de facto union of the north and south has already been accomplished did little to strengthen the case for two truly independent Vietnamese states. If the process of reunification continues to proceed smoothly, the issue of dual membership for North and South Vietnam could become a dead issue before long. (CONFIDENTIAL)

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Burma: Law and Order
[REDACTED]

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1 Authorities in Rangoon have been engaged in a new get-tough campaign against lawbreakers in recent weeks. The effort, which began shortly after the student and labor disturbances last June, has centered on political dissidents and economic criminals. Last month, the crackdown was broadened to include hundreds of "bad characters"--vagrants, squatters, and petty thieves.

1,2 Penalties are also becoming more severe. Students and workers found guilty of participating in the disturbances are now being given stiffer sentences than those involved in similar disorders last year. Some students have received eight-year jail terms, while workers got up to 16 years. Even petty criminals are summarily sentenced to terms of up to six years, and traffic laws are being strictly enforced.

1 Charges of corruption, neglect, and indiscipline have been levied on several hundred low level government officials. Although the regime normally turns a blind eye to black market operations, raids have been made on Rangoon warehouses and nearly 100 small private industries in the capital have been closed for reselling raw materials purchased from the government.

1,3 Hard-line elements in the army apparently are behind the tough tactics. The military has administered Rangoon directly since the riots last December, and soldiers, rather than police, are now making house to house searches in lower class suburban areas. Army patrols are again stopping long-haired youths on the streets and giving them free haircuts, as they did in December.

2 The authorities had originally acted with considerable restraint in dealing with the most recent

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disturbances in Rangoon. Senior officials met with student and worker groups to explain the government's policies. The regime has been unwilling or unable, however, to come up with new solutions to alleviate Burma's underlying economic ills, and authorities apparently have concluded that they must use force to keep the situation from getting out of hand.
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ANNEX

The Two Koreas: An Economic Appraisal

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The economies of both South and North Korea have been damaged by global recession/inflation and will be unable to maintain the rapid growth rates of the early 1970s. The South must counter rampant domestic inflation, rising unemployment, and a huge trade deficit. Even though the North has begun repaying overdue debts, its international credit rating is in shreds, and its ambitious program to buy advanced industrial equipment has been badly set back.

Economic Comparisons

1
2
9 South Korea and North Korea are bitter economic rivals. Both economies have grown rapidly in recent years and are among the most advanced of less developed countries (LDCs). The North has drawn on superior natural resources--coal, iron ore, hydro-electric power--to build up a formidable heavy industry. The South has drawn on advanced technology and equipment from the West and has made marked progress in shipbuilding, petrochemicals, petroleum refining, electronics, and most consumer goods. South Korea also is developing a multibillion dollar nuclear power base while North Korea's nuclear program is still in the talking stage. Neither is self-sufficient in agricultural production. South Korea annually imports about one fourth of its food needs, while the North periodically enters the international market for grain following poor crop years.

Industry

North Korea's industrial output--roughly 40 percent of GNP--is claimed to have nearly doubled between

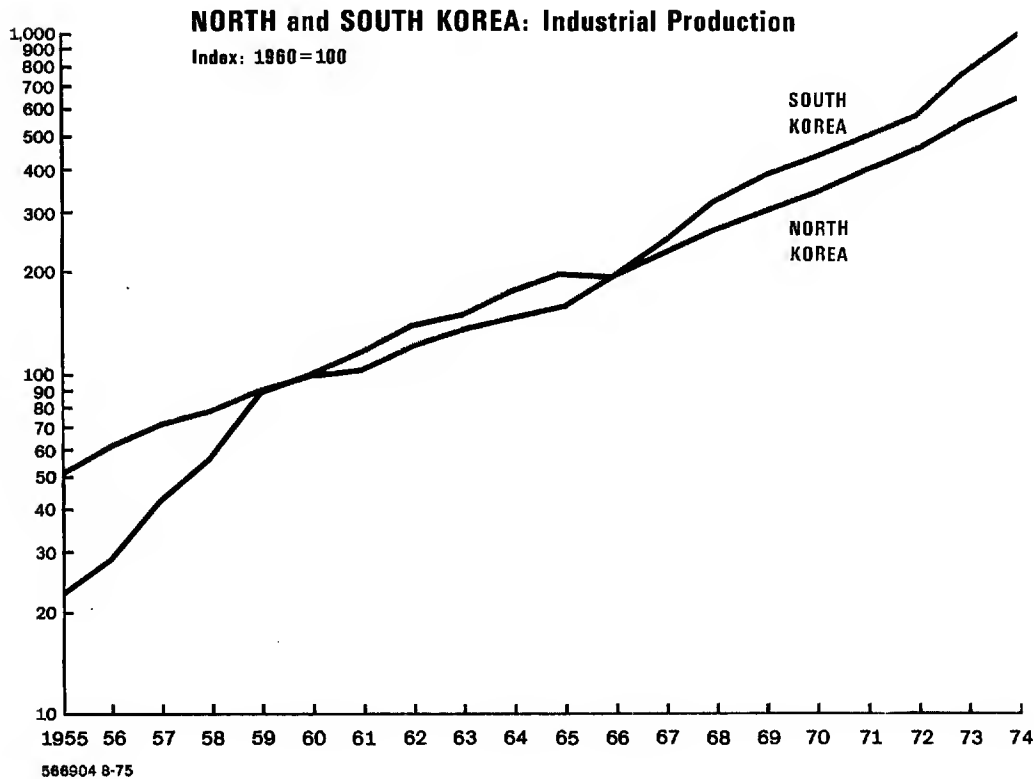
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23 1970 and 1974. Real annual rates of growth probably have been nearer 10-12 percent than the 17 percent claimed. Much of the increase is due to the completion of Soviet projects begun in the late 1960s. To date most of the plants purchased from Western Europe and Japan have yet to come on line. Output consists primarily of heavy industrial goods such as steel, nonferrous metals, fertilizer, cement, and heavy machinery. Light industry barely keeps pace with the subsistence needs of the population. North Korea has just begun to develop a petrochemical industry and generally its industrial technology is inferior to that of the South.

South Korea's industrialization has been extraordinary, especially so when most of the peninsula's



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9 mineral and electric power resources are in the North. Adopting the Japanese model of growth through trade, the South Korean rate of manufacturing production rose during the 1960s at nearly 20 percent a year. During the first half of the 1970s, the tempo increased to 30 percent per annum. As a consequence, industrial output in 1974 represented 30 percent of GNP, compared to less than 15 percent in 1962 when President Park assumed power. South Korea produced much larger amounts of consumer goods than the North and the technological level of much of industry compares favorably to that of Japan, Western Europe, and the US from which modern equipment has been purchased.

10 South Korea is the third largest petroleum importer among the LDCs and these imports have had a damaging impact on its balance-of-payments deficit. In 1974 higher prices pushed the fuel import bill to about \$730 million, up from \$186 million in 1973. The oil price crunch has reinforced the government's ambitious plans to go to nuclear power to offset the higher oil costs and also make the country more self-sufficient in energy resources. Seoul has committed itself to the acquisition of eight nuclear plants costing several billion dollars. These plants are expected to reduce South Korean dependence on oil for energy generation by 1981 from two thirds to about one half of total consumption.

21 North Korea, with abundant hydroelectric and coal resources, has been little affected by increased oil prices. Almost all of its petroleum supply of nearly two million tons in 1974 was obtained from the USSR and China at favorable prices. Operations have begun at North Korea's first petroleum refinery and 22 when it reaches full capacity, this two-million-ton refinery should make the North nearly self-sufficient in oil products at its low level of consumption.

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Agriculture

2
11 Even with South Korea's natural advantage of greater arable land and superior crop yields, it has consistently remained a relatively large importer of food grains, stemming in part from neglect and also from population pressures. The South's larger and more advanced agriculture sector was finally surpassed by industry in 1973 as the main contributor to GNP. By the end of 1974 the agricultural share had slipped to 23 percent, compared to nearly 40 percent in 1965. Seoul's third and fourth (1977-81) five-year development plans have put greater emphasis on self-sufficiency in agriculture through greater use of chemical fertilizer and more intensive farming techniques. Even so, South Korea probably will continue to import several million tons of food grains yearly during the rest of the 1970s--2.7 million metric tons were imported in 1974 against 7.3 million tons produced domestically, yielding only a 73 percent self-sufficiency rate.

23
14 Pyongyang has recently claimed that its six-year plan agricultural goal of seven million tons* of grain was attained in 1974, two years ahead of schedule. Though this figure is no doubt exaggerated, grain output probably did reach a peak level. Last year the weather was favorable and fertilizer supplies were up. Nevertheless, prospects for attaining the eight million ton goal set for 1975 seem out of the question. Judging from weather conditions, the grain harvest may fall short of requirements and imports may be needed. Given Pyongyang's current poor credit standing, grain imports on credit may be difficult to arrange.

**The North Korean data are in terms of unprocessed grain and may include tubers, soybeans, and lentils.*

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Recent Problems

The economic race between the two Koreas has been interrupted by the world economic slump. South Korean exports have plummeted because of weak demand in US and Japanese markets, which last year accounted for 65 percent of foreign sales. Meanwhile, imports of capital goods, food, and petroleum have remained high. Seoul's trade deficit soared from nearly \$500 million in 1973 to more than \$2 billion in 1974. An even larger gap is forecast for 1975 because of sluggish foreign demand and inflated import prices.

South Korea and North Korea: Trade Deficits

		Million US \$	
		North Korea	
	South Korea	Total	Non-Communist
1970	803	80	2
1971	1,018	245	5
1972	541	245	75
1973	499	315	165
1974	2,072	655	545
1975 (est.)	2,200-2,400	N.A.	N.A.

At the same time, declining world prices for metals, North Korea's principal exports, contributed to a sharp deterioration in its trade balance. Pyongyang overextended itself and attained a credit rating ranked by one international banker as on a par with Chile and Upper Volta. Since last fall, the North has been unable to meet payments on many of its obligations to the West and is \$200 to \$300 million in arrears. This is the first time a communist country has defaulted on a large scale with non-communist trading partners. Japan and several countries in Western Europe have suspended government

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guarantees for shipments to North Korea, and some firms have delayed exports of equipment until overdue payments are made.

17 Last month North Korea made payments of \$10
18 million to Japanese companies covering debts more
19 than six months in arrears and signed refinancing
20 agreements with several West European banks. These
cover only a portion of Pyongyang's overdue payments and simply postpone the settlement day.

Defense Spending

16 Both Koreas spend a high percentage of their national budgets on defense. The North Koreans have an active defense industry and produce much of their own ground force and naval equipment. Pyongyang does not produce its own aircraft, however, and still relies heavily on the USSR and China for more sophisticated weaponry. The North has done little military shopping in Western markets.

11 South Korea is dependent almost entirely on imports for its military equipment. During the next five years, Seoul will spend \$2.5 to \$3 billion for new weapons systems. Seoul recently imposed a defense tax to help finance future domestic production and co-production efforts. These efforts would be concentrated on items such as artillery, helicopters, and tanks.

11 The South Koreans have indicated their willingness to deal with suppliers other than the US. [REDACTED] President Pak wants to acquire the best available weapons at the best price, from whatever source. The South Koreans plan to use short-term loans, repaying them through funds raised by the defense tax.

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South Korea and North Korea: Selected Economic Indicators

Item	Unit	1965		1970		1974	
		South Korea	North Korea	South Korea	North Korea	South Korea	North Korea
Population	Million	28.3	12.2	31.3	14.2	33.6	16.0
Industrial production index	1960 = 100	162	195	441	332	991	622
Foreign trade (two-way)	Billion US \$ current prices	0.5	0.4	2.9	0.7	11.3	1.8
Grain (polished)	Million tons	7.0	3.25	7.5	3.6	7.3	5.0
Electric power	Billion kilowatt hours	3.2	13.4	9.2	16.5	16.8	21.0
Anthracite coal	Million tons	10.2	12.8	12.4	21.8	15.3	28.3
Iron ore	Million tons	0.74	5.0	0.6	6.5	0.5	9.5
Crude steel	Million tons	0.18	1.2	0.48	2.2	1.9	3.4
Chemical fertilizers	Thousand tons (nutrient content)	N.A.	158	594	320	757	555
Cement	Million tons	1.6	2.4	5.8	4.0	8.8	5.5
Textiles (excluding yarns)	Million square meters cloth	218	270	340	400	594	470
Refined petroleum products	Million tons	1.3	9.0	14.2	1.0
Motor vehicles (trucks, buses, autos, tractors)	Thousand	0.85	8.9	17.6	19	32	44-54

12 The South apparently is determined to press forward with its ambitious defense program, but any major foreign arms purchases soon will only add to Seoul's difficulties in financing its growing trade deficit.

Outlook

Since the major part of the expected current account deficit has already been covered, South

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3 Korea probably can stave off serious economic pres-
6 sures this year. If export earnings do not soon be-
7 gin to turn up sharply, Seoul will be forced to
8 look to its largest creditors--the United States and
11 Japan--for large scale debt relief. Moreover, ris-
ing inventories, high rates of inflation, and in-
creasing hard currency deficits may require the
South to reduce purchases abroad and curb domestic
consumer and producer demand, steps that would ac-
celerate the already rising unemployment rate. In
any case, South Korean growth rates are likely to
decline in 1975 and 1976 from the 8.2 percent real
increase achieved in 1974.

The decline in growth rates in the North may
be smaller than the decline in the South over the
next year because Pyongyang depends less on foreign
trade, and much of its trade still is with the USSR
and China. Nevertheless, North Korea's reputation
as a poor credit risk already is affecting indus-
trial imports, and the North would have severe dif-
ficulties in obtaining large additional credits.

Over the longer term, North Korea's present
credit problems will reduce chances of obtaining
credit to purchase new plants from the West, thus,
11 delaying the resumption of rapid industrial growth.
On the other hand, the South with superior tech-
nology and growth potential, once Western markets
recover, probably will resume high rates of growth.
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